

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Moulton-Udell Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Marlan Korthaus	President	2008
Rodger Kaster	Vice-President	2007
Dan Jay	Board Member	2006
Jerilyn Inman	Board Member	2006
Travis Harris	Board Member	2008

Board of Education (After September 2006 Election)		
Marlan Korthaus	President	2008
Rodger Kaster	Vice-President	2007
Randy Welch	Board Member	2009
Jerilyn Inman	Board Member	2009
Travis Harris	Board Member	2008

School Officials		
Rich Turner	Superintendent	2007
Marvin Judkins	Business Mananger	2007
Marilyn Wood	District Secretary/Treasurer	2007
Richard Gaumer	Attorney	2007

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Moulton-Udell Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Moulton-Udell Community School District, Moulton-Udell, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Moulton-Udell Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 15, 2008 on our consideration of Moulton-Udell Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Moulton-Udell Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for two years ending June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 15, 2008

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Moulton-Udell Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$2,246,722 in fiscal 2006 to \$2,166,882 in fiscal 2007, while General Fund expenditures increased from \$2,228,224 in fiscal 2006 to \$2,258,701 in fiscal 2007. This resulted in the District's General Fund balance to decrease from \$435,287 in fiscal 2006 to \$345,838 in fiscal 2007, a 20.5% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in local tax and tuition sources in fiscal 2007. The increase in expenditures was due primarily to an increase in other instruction and operation and maintenance of plant services costs.
- The decrease in General Fund revenues was also attributable to decreases in the State Foundation Aid and Federal Aid, especially Title I, totaling over \$40,000. These decreases, as were the property tax decreases, were primarily caused by declining enrollment and the diminishing of the state budget guarantee.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Moulton-Udell Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Moulton-Udell Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Moulton-Udell Community School District acts solely as an agent or custodial for the benefit of those outside of District government.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**

***Moulton-Udell Community School District Annual Financial Report***

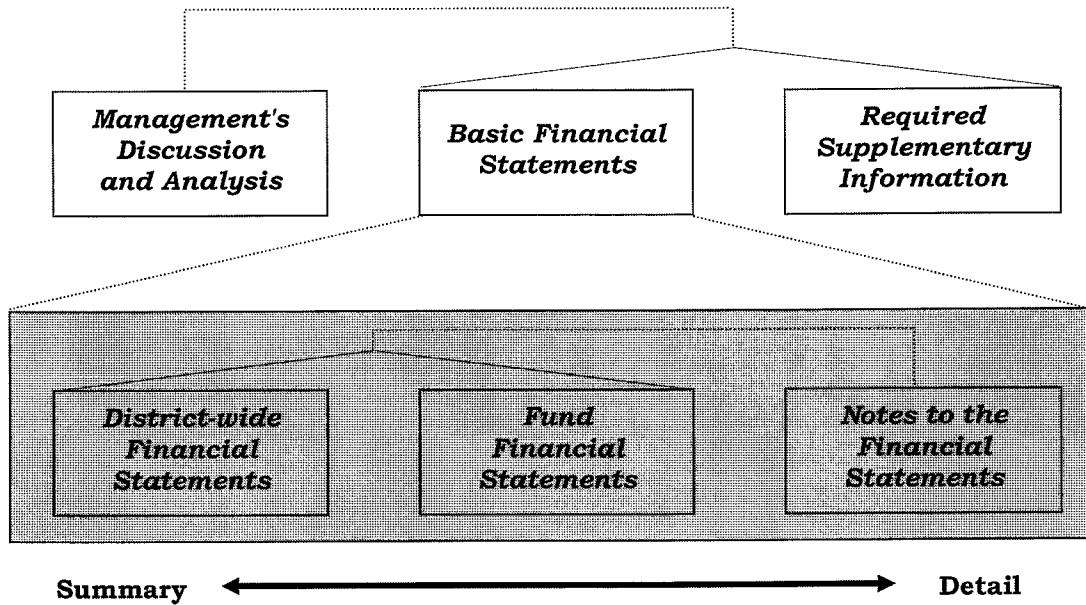


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**

***Major Features of the Government-Wide and Fund Financial Statements***

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid



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## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 1,774,046	1,849,604	2,636	9,565	1,776,682	1,859,169	-4.44%
Capital assets	772,592	768,839	22,268	11,042	794,860	779,881	1.92%
Total assets	2,546,638	2,618,443	24,904	20,607	2,571,542	2,639,050	-2.56%
Long-term obligations	8,573	13,857	0	0	8,573	13,857	-38.13%
Other liabilities	1,047,005	1,104,769	3,206	721	1,050,211	1,105,490	-5.00%
Total liabilities	1,055,578	1,118,626	3,206	721	1,058,784	1,119,347	-5.41%
Net assets:							
Invested in capital assets, net of related debt	771,527	768,839	22,268	11,042	793,795	779,881	1.78%
Restricted	321,197	250,252	0	0	321,197	250,252	28.35%
Unrestricted	398,336	480,726	(570)	8,844	397,766	489,570	-18.75%
Total net assets	\$ 1,491,060	1,499,817	21,698	19,886	1,512,758	1,519,703	-0.46%

The District's combined net assets decreased by 0.46% or \$6,945, compared to the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$70,945, or 28.35% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$91,804, or 18.75%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 262,901	331,683	38,822	35,860	301,723	367,543	-17.91%
Operating grants and contributions and restricted interest	340,911	328,065	46,851	54,465	387,762	382,530	1.37%
Capital grants and contributions and restricted interest	18,300	11,194	0	0	18,300	11,194	63.48%
General revenues:							
Property tax	815,187	793,961	0	0	815,187	793,961	2.67%
Local option sales and services tax	129,179	133,373	0	0	129,179	133,373	-3.14%
Unrestricted state grants	920,413	943,981	0	0	920,413	943,981	-2.50%
Other	44,034	31,535	106	112	44,140	31,647	39.48%
Total revenues	2,530,925	2,573,792	85,779	90,437	2,616,704	2,664,229	-1.78%
Program expenses:							
Governmental activities:							
Instructional	1,565,955	1,599,625	0	0	1,565,955	1,599,625	-2.10%
Support services	774,964	827,179	0	0	774,964	827,179	-6.31%
Non-instructional programs	0	0	99,505	95,181	99,505	95,181	4.54%
Other expenses	198,763	163,244	0	0	198,763	163,244	21.76%
Total expenses	2,539,682	2,590,048	99,505	95,181	2,639,187	2,685,229	-1.71%
Net income(loss) before capital contributions	(8,757)	(16,256)	(13,726)	(4,744)	(22,483)	(21,000)	7.06%
Capital contributions	0	0	15,538	0	15,538	0	100.00%
Changes in net assets	(8,757)	(16,256)	1,812	(4,744)	(6,945)	(21,000)	-66.93%
Beginning net assets	1,499,817	1,516,073	19,886	24,630	1,519,703	1,540,703	-1.36%
Ending net assets	\$ 1,491,060	1,499,817	21,698	19,886	1,512,758	1,519,703	-0.46%

In fiscal 2007, local tax and unrestricted state grants account for 73.7% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were approximately \$2.62 million of which \$2.53 million was for governmental activities and \$0.09 million was for business type activities.

As shown in FigureA-4, the District as a whole experienced a 1.78% decrease in revenues and a 1.71% decrease in expenses.

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## Governmental Activities

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change	2007	2006	Change
			2006-07			2006-07
Instruction	\$ 1,565,955	1,599,625	-2.10%	1,039,521	1,016,497	2.27%
Support services	774,964	827,179	-6.31%	774,914	826,842	-6.28%
Other expenses	198,763	163,244	21.76%	103,135	75,767	36.12%
Totals	<u>\$ 2,539,682</u>	<u>2,592,054</u>	<u>-2.02%</u>	<u>1,917,570</u>	<u>1,921,112</u>	<u>-0.18%</u>

- The cost financed by users of the District's programs was \$262,901.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$340,911.
- The net cost of governmental activities was financed with \$815,187 in property tax, \$129,179 in local option sales and services tax, \$920,413 in unrestricted state grants and \$44,034 in interest income.

## Business-Type Activities

Revenues of the District's business-type activities were \$85,779 and expenses were \$99,505. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Moulton-Udell Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$670,300, below last year's ending fund balances of \$699,043. However, the primary reason for the decrease in combined fund balances in fiscal 2007 is due to the District receiving less in tuition revenue and an increase in other instruction, administration and transportation services, and facilities acquisitions expenditures.

## Governmental Fund Highlights

- The District's General Fund decreased \$89,449. Overall total expenditures increased, however the expenditures in special instruction and instructional staff services expenditures actually decreased. An increase in other and state revenue was not enough to offset the decrease in local tax, tuition, and federal revenues. Total revenues decreased \$79,840, which was a decrease of 3.56%.
- The Capital Projects Fund balance increased from \$185,516 in fiscal 2006 to \$212,500 in fiscal 2007. Revenues increased less than 1% or \$620 from the prior year. Expenditures increased \$76,114 over the prior year. This increase was due to an increase in transportation services and facilities acquisitions expenditures.

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- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$3,027 in fiscal 2006 to \$29,277 in fiscal 2007. This increase was partially due to an increase in local taxes and also an increase in monies for a Fire and Safety Grant.
  - The Management Levy Fund balance increased from \$7,993 to \$22,421 due to an increase in property tax levy during the current year and a decrease in operation and maintenance of plant services expenditures.

### **Proprietary Fund Highlights**

The Proprietary Funds net assets increased from \$19,886 at June 30, 2006 to \$21,698 at June 30, 2007, representing an increase of 9.11%. For fiscal 2007, the District received increased monies from charges for services and capital contributions.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Moulton-Udell Community School District amended its annual budget two times to reflect additional expenditures associated with the instruction, support services, and non-instructional program areas.

The District's revenues were \$196,921 more than budgeted revenues. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2007, the District had invested \$794,860, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 1.88% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$63,846.

The original cost of the District's capital assets was \$2,119,474. Governmental funds account for \$2,052,794 with the remainder of \$66,680 in the Proprietary funds.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$99,605 at June 30, 2007, compared to \$67,748 reported at June 30, 2006. This increase resulted primarily from the purchase of one suburban and one bus.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 2,000	2,000	0	0	2,000	2,000	0.00%
Buildings	669,815	699,243	0	0	669,815	699,243	-4.39%
Land improvements	23,440	10,890	0	0	23,440	10,890	53.54%
Machinery and equipment	77,337	56,706	22,268	11,042	99,605	67,748	31.98%
Total	\$ 772,592	768,839	22,268	11,042	794,860	779,881	1.88%

### Long-Term Debt

At June 30, 2007, the District had \$1,065 in capital lease obligations and \$7,508 in early retirement outstanding. This represents a decrease of 38.1% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements. The capital lease obligations are payable from the Capital Projects Fund.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2007	2006	
Capital lease obligations	\$ 1,065	13,857	-92.3%
Early retirement	7,508	0	100.0%
Totals	\$ 8,573	13,857	-38.1%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District has experienced declining enrollment for past five years, the District expects this trend to continue the next few years.
- Two major employers in neighboring Centerville have closed and laid-off hundreds of employees. This has impacted Moulton-Udell. Recently, employment opportunities appear to be improving in Centerville.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lisa Swarts, Board Secretary, Moulton-Udell Community School District, 305 East 8<sup>th</sup>, Moulton, Iowa, 52572.

## BASIC FINANCIAL STATEMENTS

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments:			
ISCAP (Note 5)	\$ 221,538	0	221,538
Other	562,217	0	562,217
Receivables:			
Property tax:			
Delinquent	25,077	0	25,077
Succeeding year	764,643	0	764,643
Income surtax	56,741	0	56,741
Interfund	2,000	0	2,000
Accounts	40	0	40
Accrued interest - ISCAP ( Note 5)	12,022	0	12,022
Due from other governments	125,636	0	125,636
Prepaid items	4,132	0	4,132
Inventories	0	2,636	2,636
Capital assets, net of accumulated depreciation(Note 6)	772,592	22,268	794,860
<b>Total Assets</b>	<b>2,546,638</b>	<b>24,904</b>	<b>2,571,542</b>
<b>Liabilities</b>			
Excess of warrants issued over bank balance	0	485	485
Interfund payable	0	2,000	2,000
Accounts payable	41,276	0	41,276
Salaries and benefits payable	7,993	0	7,993
ISCAP warrants payable (Note 5)	222,000	0	222,000
ISCAP accrued interest payable (Note 5)	9,928	0	9,928
ISCAP unamortized premium	1,165	0	1,165
Deferred revenue:			
Succeeding year property tax	764,643	0	764,643
Unearned revenue	0	721	721
Long-term liabilities(Note 7):			
Portion due within one year:			
Capitalized lease obligations	1,065	0	1,065
Early retirement payable	7,508	0	7,508
<b>Total Liabilities</b>	<b>1,055,578</b>	<b>3,206</b>	<b>1,058,784</b>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	771,527	22,268	793,795
Restricted for:			
Early intervention	2,005	0	2,005
Talented and gifted	13	0	13
Teacher compensation	1,559	0	1,559
Professional development	666	0	666
Capital projects	212,500	0	212,500
Physical plant and equipment levy	29,277	0	29,277
Management levy	14,913	0	14,913
Other special revenue purposes	60,264	0	60,264
Unrestricted	398,336	(570)	397,766
<b>Total Net Assets</b>	<b>\$ 1,491,060</b>	<b>21,698</b>	<b>1,512,758</b>

SEE NOTES TO FINANCIAL STATEMENTS.



MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 952,056	70,760	250,474	0	(630,822)	0	(630,822)
Special instruction	225,909	29,574	13,109	0	(183,226)	0	(183,226)
Other instruction	387,990	162,517	0	0	(225,473)	0	(225,473)
	1,565,955	262,851	263,583	0	(1,039,521)	0	(1,039,521)
Support services:							
Student services	35,040	0	0	0	(35,040)	0	(35,040)
Instructional staff services	57,805	0	0	0	(57,805)	0	(57,805)
Administration services	327,621	0	0	0	(327,621)	0	(327,621)
Operation and maintenance of plant services	217,726	0	0	0	(217,726)	0	(217,726)
Transportation services	136,772	50	0	0	(136,722)	0	(136,722)
	774,964	50	0	0	(774,914)	0	(774,914)
Other expenditures:							
Facilities and acquisitions	90,311	0	0	18,300	(72,011)	0	(72,011)
Long-term debt interest	399	0	0	0	(399)	0	(399)
AEA flowthrough	77,328	0	77,328	0	0	0	0
Depreciation(unallocated) *	30,725	0	0	0	(30,725)	0	(30,725)
	198,763	0	77,328	18,300	(103,135)	0	(103,135)
Total governmental activities	2,539,682	262,901	340,911	18,300	(1,917,570)	0	(1,917,570)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	99,505	38,822	46,851	0	0	(13,832)	(13,832)
Total business-type activities	99,505	38,822	46,851	0	0	(13,832)	(13,832)
Total	\$ 2,639,187	301,723	387,762	18,300	(1,917,570)	(13,832)	(1,931,402)
General Revenues and Transfers:							
Local tax for:							
General purposes				\$ 769,394	0		769,394
Capital outlay				45,793	0		45,793
Local option sales and services tax				129,179	0		129,179
Unrestricted state grants				920,413	0		920,413
Unrestricted investment earnings				44,034	106		44,140
Total general revenues				1,908,813	106		1,908,919
Changes in net assets before capital contributions				(8,757)	(13,726)		(22,483)
Capital contributions				0	15,538		15,538
Changes in net assets				(8,757)	1,812		(6,945)
Net assets beginning of year				1,499,817	19,886		1,519,703
Net assets end of year				\$ 1,491,060	21,698		1,512,758

SEE NOTES TO FINANCIAL STATEMENTS.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments:				
ISCAP (Note 5)	\$ 221,538	0	0	221,538
Other	287,329	187,168	87,720	562,217
Receivables:				
Property tax:				
Delinquent	22,035	0	3,042	25,077
Succeeding year	655,098	0	109,545	764,643
Income surtax	56,741	0	0	56,741
Interfund	4,196	0	1,098	5,294
Accounts	0	0	40	40
Accrued interest - ISCAP (Note 5)	12,022	0	0	12,022
Due from other governments	76,816	28,626	20,194	125,636
Prepaid items	4,132	0	0	4,132
<b>Total Assets</b>	<b>\$ 1,339,907</b>	<b>215,794</b>	<b>221,639</b>	<b>1,777,340</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Interfund payable	\$ 0	3,294	0	3,294
Accounts payable	41,144	0	132	41,276
Salaries and benefits payable	7,993	0	0	7,993
ISCAP warrants payable (Note 5)	222,000	0	0	222,000
ISCAP accrued interest payable (Note 5)	9,928	0	0	9,928
ISCAP unamortized premium	1,165	0	0	1,165
Deferred revenue:				
Succeeding year property tax	655,098	0	109,545	764,643
Income surtax	56,741	0	0	56,741
<b>Total liabilities</b>	<b>994,069</b>	<b>3,294</b>	<b>109,677</b>	<b>1,107,040</b>
Fund balances:				
Reserved for:				
Early intervention	2,005	0	0	2,005
Talented and gifted	13	0	0	13
Teacher compensation	1,559	0	0	1,559
Professional development	666	0	0	666
Unreserved	341,595	212,500	111,962	666,057
<b>Total fund balances</b>	<b>345,838</b>	<b>212,500</b>	<b>111,962</b>	<b>670,300</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,339,907</b>	<b>215,794</b>	<b>221,639</b>	<b>1,777,340</b>

SEE NOTES TO FINANCIAL STATEMENTS.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 670,300
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	772,592
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	56,741
Long-term liabilities, including general lease obligations and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds.	<u>(8,573)</u>
Net assets of governmental activites (page 13)	<u>\$ 1,491,060</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 713,776	129,179	90,462	933,417
Tuition	100,334	0	0	100,334
Other	91,545	10,638	104,418	206,601
State sources	1,145,295	0	97	1,145,392
Federal sources	115,932	0	18,300	134,232
Total revenues	2,166,882	139,817	213,277	2,519,976
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	942,988	0	700	943,688
Special instruction	225,909	0	0	225,909
Other instruction	287,106	0	100,884	387,990
	1,456,003	0	101,584	1,557,587
Support services:				
Student services	35,040	0	0	35,040
Instructional staff services	54,901	0	0	54,901
Administration services	327,605	0	16	327,621
Operation and maintenance of plant services	193,530	0	32,043	225,573
Transportation services	114,294	49,902	2,971	167,167
	725,370	49,902	35,030	810,302
Other expenditures:				
Facilities acquisitions	0	65,431	24,880	90,311
Long-term debt:				
Principal	0	0	12,792	12,792
Interest	0	0	399	399
AEA flowthrough	77,328	0	0	77,328
	77,328	65,431	38,071	180,830
Total expenditures	2,258,701	115,333	174,685	2,548,719
Excess(deficiency) of revenues over(under) expenditures	(91,819)	24,484	38,592	(28,743)
Other financing sources(uses):				
Transfers in	2,370	2,500	13,191	18,061
Transfers out	0	0	(18,061)	(18,061)
Total other financing sources(uses)	2,370	2,500	(4,870)	0
Net change in fund balances	(89,449)	26,984	33,722	(28,743)
Fund balances beginning of year	435,287	185,516	78,240	699,043
Fund balances end of year	\$ 345,838	212,500	111,962	670,300

SEE NOTES TO FINANCIAL STATEMENTS.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ (28,743)

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 63,287	
Depreciation expense	(59,534)	3,753

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.	12,792
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Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.	10,949
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	(7,508)
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Changes in net assets of governmental activities (page 14)	\$ (8,757)
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SEE NOTES TO FINANCIAL STATEMENTS.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2007

	<u>School Nutrition</u>
<b>Assets</b>	
Inventories	\$ 2,636
Capital assets, net of accumulated depreciation(Note 6)	22,268
<b>Total assets</b>	<u>24,904</u>
<b>Liabilities</b>	
Excess of warrants issued over bank balance	485
Interfund payable	2,000
Unearned revenue	721
<b>TOTAL LIABILITIES</b>	<u>3,206</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	22,268
Unrestricted	(570)
<b>Total net assets</b>	<u><u>\$ 21,698</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	<u>\$ 38,822</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	36,117
Benefits	4,797
Services	2,896
Supplies	51,103
Other	280
Depreciation	4,312
TOTAL OPERATING EXPENSES	<u>99,505</u>
OPERATING LOSS	<u>(60,683)</u>
NON-OPERATING REVENUES:	
State sources	1,297
Federal sources	45,554
Interest on investments	106
TOTAL NON-OPERATING REVENUES	<u>46,957</u>
Change in net assets before other financing sources	(13,726)
Other financing sources	
Capital contributions	<u>15,538</u>
Net income	1,812
Net assets beginning of year	<u>19,886</u>
Net assets end of year	<u><u>\$ 21,698</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 38,289
Cash received from miscellaneous	533
Cash payments to employees for services	(40,914)
Cash payments to suppliers for goods or services	(48,235)
Net cash used in operating activities	<u>(50,327)</u>
Cash flows from non-capital financing activities:	
State grants received	1,297
Federal grants received	40,216
Net cash provided by non-capital financing activities	<u>41,513</u>
Cash flows from investing activities:	
Interest on investments	<u>106</u>
Net decrease in cash and cash equivalents	(8,708)
Cash and cash equivalents at beginning of year	<u>8,223</u>
Cash and cash equivalents at end of year	<u>\$ (485)</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (60,683)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	5,338
Depreciation	4,312
Increase in inventories	(1,294)
Increase in accounts payable	2,000
Net cash used in operating activities	<u>\$ (50,327)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ (485)</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2007, the District received Federal commodities valued at \$5,338.	
During the year ended June 30, 2007, the Enterprise Fund received assets valued at \$15,538.	

SEE NOTES TO FINANCIAL STATEMENTS.



MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Moulton-Udell Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Moulton and Udell, Iowa, and the predominate agricultural territory in Appanoose and Davis Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Moulton-Udell Community School District has included all funds, organizations, Account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Moulton-Udell Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Appanoose and Davis Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds is the School Nutrition Fund. The Nutrition fund is used to account for the food service operations of the District.

#### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is

incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash

basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Interfund Receivables and Payables - During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2007 balances of interfund accounts receivable or payable have been recorded.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government

commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,000
Buildings	10,000
Land improvements	10,000
Machinery and equipment:	
School Nutrition Fund equipment	500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20-50 years

Salaries and Benefits Payable - Payroll and related expenditures for extra duties and curriculum work for the current school year, which is paid in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be

recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 11,521</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

**(3) Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
PPEL	Capital Projects	\$ 1,098
General	Capital Projects	2,196
General	School Nutrition	2,000
		<u>\$ 5,294</u>

Capital Projects owes the General and Special Revenue: Physical Plant and Equipment Levy for payments made on the capital lease obligation. These should be paid back in fiscal year 2008.

**(4) Transfers**

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	PPEL	\$ 13,191
General	Expendable Trust	1,978
General	Student Activity	392
Capital Projects	Student Activity	2,500
		<u>\$ 18,061</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(5) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/06	6/28/07	\$ 0	9,401	0	7,701
2006-07B	1/26/07	1/25/08	114,707	2,589	115,000	2,200
2007-08A	6/28/07	6/27/08	106,831	32	107,000	27
Total			\$ 221,538	12,022	222,000	9,928

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07A	\$ 0	10,000	10,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2006-07B	4.250%	5.315%



## (6) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,000	0	0	2,000
Total capital assets not being depreciated	2,000	0	0	2,000
Capital assets being depreciated:				
Buildings	1,491,397	0	0	1,491,397
Land improvements	12,100	13,847	0	25,947
Machinery and equipment	517,010	49,440	33,000	533,450
Total capital assets being depreciated	2,020,507	63,287	33,000	2,050,794
Less accumulated depreciation for:				
Buildings	792,154	29,428	0	821,582
Land improvements	1,210	1,297	0	2,507
Machinery and equipment	460,304	28,809	33,000	456,113
Total accumulated depreciation	1,253,668	59,534	33,000	1,280,202
Total capital assets being depreciated, net	766,839	3,753	0	770,592
Governmental activities capital assets, net	\$ 768,839	3,753	0	772,592

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 29,481	37,199	0	66,680
Less accumulated depreciation	18,439	25,973	0	44,412
Business-type activities capital assets, net	\$ 11,042	11,226	0	22,268

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 860
Support services:	
Instructional staff	2,904
Administration	0
Operation and maintenance	6,000
Transportation	19,045
Unallocated depreciation	28,809
Total governmental activities depreciation expense	\$ 59,534
Business-type activities:	
Food services	\$ 4,312

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Capitalized lease obligations	\$ 13,857	0	12,792	1,065	1,065
Early Retirement	0	7,508	0	7,508	7,508
Total	\$ 13,857	7,508	12,792	8,573	8,573

Capitalized Lease Obligation

The District has entered into capital leases for the purchase of electronic equipment. The assets have been capitalized at cost. Future minimum lease payments for the capital lease commitment are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2008	2.75 %	\$ 1,065	32	1,097

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$75,654, \$72,420, and \$70,583, respectively, equal to the required contributions for each year.

(9) Risk Management

Moulton-Udell Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed in July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: Medical, dental, vision and prescription drugs.

Each members' contributions to the ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2007 were \$210,001.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2007 no liability has been recorded in the District's financial statements. As of June 30, 2007 settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

Moulton-Udell Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$77,328 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(11) Deficit Unrestricted Net Assets**

The Enterprise, School Nutrition Fund had deficit unrestricted net assets of \$570 at June 30, 2007.

REQUIRED SUPPLEMENTAL INFORMATION

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary		Budgeted Amounts		Final to
	Funds	Funds	Total			Actual
	Actual	Actual	Actual	Original	Final	Variance
Revenues:						
Local sources	\$ 1,240,352	38,928	1,279,280	1,076,617	1,076,617	202,663
State sources	1,145,392	1,297	1,146,689	1,066,717	1,066,717	79,972
Federal sources	134,232	45,554	179,786	265,500	265,500	(85,714)
Total revenues	2,519,976	85,779	2,605,755	2,408,834	2,408,834	196,921
Expenditures:						
Instruction	1,557,587	0	1,557,587	1,507,000	1,610,000	52,413
Support services	810,302	0	810,302	665,250	825,700	15,398
Non-instructional programs	0	99,505	99,505	81,000	102,500	2,995
Other expenditures	180,830	0	180,830	437,378	437,378	256,548
Total expenditures	2,548,719	99,505	2,648,224	2,690,628	2,975,578	327,354
Excess(deficiency) of revenues over(under) expenditures	(28,743)	(13,726)	(42,469)	(281,794)	(566,744)	(524,275)
Other financing sources, net	0	15,538	15,538	400,000	400,000	384,462
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(28,743)	1,812	(26,931)	118,206	(166,744)	(139,813)
Balances beginning of year	699,043	19,886	718,929	608,798	608,798	110,131
Balances end of year	\$ 670,300	21,698	691,998	727,004	442,054	249,944

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted two budget amendments increasing budgeted expenditures by \$284,950.

OTHER SUPPLEMENTAL INFORMATION

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2007

	Special Revenue Funds				
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total
<b>Assets</b>					
Cash and pooled investments	\$ 20,919	53,807	6,445	6,549	87,720
Receivables:					
Property tax:					
Current year delinquent	1,502	0	1,540	0	3,042
Succeeding year	62,500	0	47,045	0	109,545
Interfund	0	0	1,098	0	1,098
Accounts	0	40	0	0	40
Due from other governments	0	0	20,194	0	20,194
<b>Total Assets</b>	<b>\$ 84,921</b>	<b>53,847</b>	<b>76,322</b>	<b>6,549</b>	<b>221,639</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 0	132	0	0	132
Deferred revenue:					
Succeeding year property tax	62,500	0	47,045	0	109,545
Total liabilities	62,500	132	47,045	0	109,677
Fund Balances:					
Unreserved fund balances	22,421	53,715	29,277	6,549	111,962
<b>Total liabilities and fund balances</b>	<b>\$ 84,921</b>	<b>53,847</b>	<b>76,322</b>	<b>6,549</b>	<b>221,639</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds					Debt Service	Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue		
REVENUES:							
Local sources:							
Local tax	\$ 44,669	0	45,793	0	90,462	0	90,462
Other	4,725	98,698	195	800	104,418	0	104,418
State sources	48	0	49	0	97	0	97
Federal sources	0	0	18,300	0	18,300	0	18,300
TOTAL REVENUES	49,442	98,698	64,337	800	213,277	0	213,277
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	0	0	0	700	700	0	700
Other instruction	0	100,884	0	0	100,884	0	100,884
Support services:							
Administration services	0	0	16	0	16	0	16
Operation and maintenance of plant services	32,043	0	0	0	32,043	0	32,043
Student transportation	2,971	0	0	0	2,971	0	2,971
Other expenditures:							
Facilities acquisitions	0	0	24,880	0	24,880	0	24,880
Long-term debt:							
Principal	0	0	0	0	0	12,792	12,792
Interest	0	0	0	0	0	399	399
TOTAL EXPENDITURES	35,014	100,884	24,896	700	161,494	13,191	174,685
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	14,428	(2,186)	39,441	100	51,783	(13,191)	38,592
OTHER FINANCING SOURCES(USES):							
Transfer in	0	0	0	0	0	13,191	13,191
Transfers out	0	(2,892)	(13,191)	(1,978)	(18,061)	0	(18,061)
Total other financing sources(uses)	0	(2,892)	(13,191)	(1,978)	(18,061)	13,191	(4,870)
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	14,428	(5,078)	26,250	(1,878)	33,722	0	33,722
FUND BALANCES BEGINNING OF YEAR	7,993	58,793	3,027	8,427	78,240	0	78,240
FUND BALANCES END OF YEAR	\$ 22,421	53,715	29,277	6,549	111,962	0	111,962

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
SADD	\$ 3,704	5,054	3,696	5,062
Honor Society	599	929	523	1,005
Annual	15,429	3,515	5,798	13,146
Boys Athletics	11,738	8,838	9,909	10,667
Girls Athletics	177	11,847	11,816	208
Athletics	0	239	0	239
Cheerleaders	990	1,183	927	1,246
Drama	1,014	983	983	1,014
Student Council	3,030	13,937	13,082	3,885
FFA	8,723	13,454	16,650	5,527
FFA-IDA Project	600	7,663	8,263	0
Class of 2002	102	0	102	0
Class of 2004	100	0	100	0
Class of 2006	7	0	0	7
Class of 2007	3,910	9,449	13,275	84
Class of 2008	902	16,377	12,517	4,762
Class of 2009	77	100	70	107
Class of 2010	31	190	28	193
Class of 2011	15	210	190	35
Class of 2012	128	59	47	140
Class of 2013	69	15	0	84
Class of 2014	0	50	0	50
Class of 2015	302	25	70	257
Class of 2017	0	500	416	84
Class of 2018	0	15	0	15
Class of 2019	0	25	25	0
Art Club	366	0	0	366
Spanish Club	33	0	0	33
Interest	0	89	89	0
Musicals	1,141	0	39	1,102
Elementary	4,454	3,595	4,166	3,883
High School	966	182	820	328
Instrumental Music	97	175	175	97
Speech	89	0	0	89
Total	\$ 58,793	98,698	103,776	53,715

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 933,417	927,334	825,227	749,900
Tuition	100,334	205,102	128,700	150,002
Other	206,601	152,809	143,741	158,109
State sources	1,145,392	1,144,790	1,267,292	1,179,818
Federal sources	134,232	138,450	134,128	155,327
Total	<u>\$ 2,519,976</u>	<u>2,568,485</u>	<u>2,499,088</u>	<u>2,393,156</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 943,688	939,823	889,344	1,018,301
Special instruction	225,909	299,365	320,155	333,913
Other instruction	387,990	278,273	340,440	285,497
Support services:				
Student services	35,040	26,202	30,054	26,559
Instructional staff services	54,901	93,343	50,997	8,888
Administration services	327,621	309,408	286,564	302,959
Operation and maintenance of plant services	225,573	221,438	171,432	211,273
Transportation services	167,167	116,802	113,475	105,441
Non-instructional programs	0	0	260	225
Other expenditures:				
Facilities acquisitions	90,311	41,460	21,614	0
Long-term debt:				
Principal	12,792	12,792	24,740	46,175
Interest	399	384	1,486	2,120
AEA flow-through	77,328	76,283	77,230	77,390
Total	<u>\$ 2,548,719</u>	<u>2,415,573</u>	<u>2,327,791</u>	<u>2,418,741</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

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### Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the  
Moulton-Udell Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Moulton-Udell Community School District of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 15, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Moulton-Udell Community School District internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Moulton-Udell Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Moulton-Udell Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Moulton-Udell Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Moulton-Udell Community School District's financial statements that is more than inconsequential will not be prevented or detected by Moulton-Udell Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Moulton-Udell Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Moulton-Udell Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Moulton-Udell Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Moulton-Udell Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Moulton-Udell Community School District and other parties to whom Moulton-Udell Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Moulton-Udell Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 15, 2008

MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We have reviewed our internal control procedures to improve our internal control. This is a challenge for most Iowa schools that have declining enrollment, declining resources, and fewer support personnel.

Conclusion - Response accepted.

- I-B-07 Check Signatures - We noted during our audit, an instance of one signature on the District's checks. Chapter 291.1 of the Code of Iowa requires the Board President and Board Secretary to sign all checks.

Recommendation - The District should review their procedures to ensure that the proper signatures are on all checks before sending them out, in order to be in compliance with Chapter 291.1 of the Code of Iowa.

Response - The District has made progress on this with one check out of thousands being signed by one person instead of two last year. We will continue to be vigilant on this.

Conclusion - Response accepted.

- I-C-07 Student Activity Fund - During our audit issues arose about the properness of certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are

recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Donations from Target were recorded in the Student Activity Fund. These donations do not specify the purpose, other than instructional supplies; therefore, they should be receipted into the General fund for use in all instructional supplies/services.

Response - We have instructed employees who code revenue and expenditures on the proper procedure for that and believe they check with the business manager if they are unsure. This should help ensure these errors, although minor, do not continue to occur.

Conclusion - Response accepted.

- I-D-07 Supporting Documents for Payments with Credit Cards - Payments made with credit cards do not always have detailed supporting documentation.

Recommendation - The District has a policy in place for credit card usage. The users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place to ensure the proper detailed documentation will be available with paid credit card statements.

Response - The District has procedures in place regarding this and will review those procedures with those who use the card and who writes the checks.

Conclusion - Response accepted.

- I-E-07 Early Retirement - We noted during our audit that the Board approved an early retirement incentive. The following is excerpted from the District board meeting dated March 19, 2007:

The administration is proposing a one time early retirement incentive that is computed by multiplying years of service at Moulton-Udell times the days of unused sick leave, times 75 cents. This would equate to less than \$3,000 per person depending on years of service and unused sick leave.

This is a one time deal and the incentive would be covered by the Management Fund and would have to meet those requirements.

Although the program does not specify age it indicates that the incentive would have to meet requirements to be covered by the Management Fund.

Chapter 279.46 of the code of Iowa indicates that payment made as an incentive for early retirement may be paid from the Management Fund if the retiree is between the ages of fifty-five to sixty-five years old.

Mr. Jensen, who made application prior to the April 1, 2007 deadline and retired, will not turn fifty-five until January 30, 2008. Although Mr. Jensen retired at the end of fiscal 2007, no benefits will be paid to him until after he reaches age fifty-five.

Recommendation - The determination for benefits and the determination for the fund to pay is determined at the time of retirement. Since Mr. Jensen was not fifty-five at retirement, we believe that benefits to be paid to Mr. Jensen may not be paid with the Management Fund and should be paid by the General Fund since at the time of retirement he was not fifty-five. The District should consult legal counsel to determine the disposition of this matter.

Response - The District has consulted legal counsel. The opinion indicates as long as no payments are made until after Mr. Jensen turns fifty-five, the District may use the Management Fund.

Since no payments were made in 2007 and since they are just now being made, the District believes the auditors are in error to include this comment in the 2007 audit report. If the District accepts the auditor's instead of its lawyer's interpretation of the law or decides to pursue clarification through the state bureaus and loses, the District believes the payment could be approved from the General Fund by the board and if journal entries were made for 2008, no comment would ever be necessary.

Conclusion - Response acknowledged. It has long been the position that the age at the time of retirement was the determining age for which fund could pay for the retirement benefits. We recommend that the District obtain a Declaratory Ruling from Department of Education with regard to the payment of the incentive benefits.



MOULTON-UDELL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting

- II-A-07 Certified Budget - District expenditures for the year ended June 30, 2007, did not exceed the amount budgeted.
- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-07 Business Transactions - Business transactions between the District and District officials or employees are noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Rodger Kaster, Board Member		
Spouse owns Country Lane Graphics	Supplies	\$1,442

In accordance with Attorney's General Opinion dated November 9, 1976, the above transaction with the Board Member's spouse doesn't appear to present a conflict of interest.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- II-J-07 Financial Condition - The District had a deficit unrestricted net assets of \$570 in the Enterprise - School Nutrition fund.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - The District will monitor revenue and lunch prices.

Conclusion - Response accepted.